COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INQUIRY INTO THE COMMUNITY OF INTEREST AND AFFECT THEREOF BETWEEN THE AREAS OF GEORGETOWN, KENTUCKY AND LEXINGTON, KENTUCKY	))))	CASE NO. 91-149

O R D E R

The Kentucky Public Service Commission addresses an issue in this proceeding which has long been of concern: The community of interest between Georgetown, Kentucky and Lexington, Kentucky. The Commission initiated this inquiry to investigate whether a community of interest sufficient to support expanded local calling exists between the locales of Georgetown, Kentucky and Lexington, Kentucky. In the May 15, 1991 Order establishing this proceeding, the Commission noted that the development of the Georgetown area and its proximity to Lexington may indicate a community of interest between these areas sufficient to demonstrate that two-way non-optional extended area service ("EAS") should be implemented between and among the communities. This proceeding also includes a review of the impact that such community of interest should have on the provision of telecommunications between the communities.

All interexchange carriers and resellers were made parties in addition to the Georgetown-Scott County Chamber of Commerce, South Central Bell Telephone Company ("South Central Bell"), and GTE

South Incorporated ("GTE South"). The Commission ordered that South Central Bell and GTE South publish notice to their customers of proposed rate increases that may be implemented if EAS between Georgetown and Lexington is found reasonable and in the public interest.

In reaching its decision, the Commission has been cognizant of the varied and often counter-balancing interests presented during inquiries for extended area service. The Commission has carefully reviewed all written comments as well as testimony and comments given at the public hearing held on November 15, 1991.

The threshold issue confronting the Commission is whether a community of interest exists between the locales of Georgetown and Lexington and whether that community of interest is sufficiently strong to support the provision of extended area service between these communities. To describe the community of interest, the Georgetown-Scott County Chamber of Commerce relied on a survey conducted by the Bluegrass Tomorrow Agency in May 1991; a study entitled, "The Georgetown Image Study" conducted by a marketing research firm for the Georgetown-Scott County Chamber of Commerce in May 1990; and a study prepared by the Urban Study Center and the Bureau of Economic Research of the University of Louisville entitled, "Impacts of the Toyota Plant on Scott County, Kentucky." Additional information was provided by the Department of Local Government; the governments located within Scott County, the Scott County public school system; Toyota Motor Manufacturing, U.S.A.; local banks; local newspapers; Scott County General Hospital; and Georgetown College. The Georgetown-Scott County Chamber of

Commerce has sponsored witnesses who testified to the community of interest demonstrated between Georgetown and Fayette County. The record demonstrates an astounding community of interest between Georgetown and Lexington. The communities are contiguous and approximately 8-10 miles apart. Approximately 30 percent of Scott County residents are employed outside Scott County. The majority of these commute to the Lexington area. A significant number of Fayette County residents served by the Lexington exchanges are employed in Scott County. A major link between the two communities is the Toyota Motor Manufacturing U.S.A., Inc. which began production in 1988. Twenty-five percent of the employees of Toyota are residents of Fayette County. The Toyota plant obtains non-production goods and services from 170 suppliers located in Lexington.

The community of interest between Georgetown and Lexington is further demonstrated by the provision of medical care, education, and other essential services. Forty-five percent of Scott County residents that require hospital care are hospitalized in Lexington. Five percent of the admissions to the Scott County General Hospital are Fayette County residents. Half of the physicians living in Scott County have private practices in Lexington. Twenty-five to forty percent of the teachers employed by the public school system in Scott County live in the Lexington area. Scott County residents utilize the University of Kentucky research facilities, vocational educational opportunities in Fayette County, and areas of cultural interest in Lexington.

There is a formal cooperation between the Georgetown Police Department and the Lexington-Fayette Urban County Police Department for reciprocal aid, for the training of K-9 officers, and for the use of S.W.A.T. teams. There is also a reciprocal agreement concerning the fire departments and training of fire department personnel. Moreover, there is a joint venture between the Bluegrass Airfield and the Scott County Airport Board to relieve some of the traffic burden from the Bluegrass field. The Bluegrass Area Development District, covering a 17 county planning group, is headquartered in Lexington. The vast majority of the vendors and suppliers for the businesses and school systems in Scott County are located in Lexington.

A community of interest was supported and acknowledged by all participants, including GTE South and South Central Bell.[1] South Central Bell determined its existence by conducting face-to-face interviews with certain subscribers in the affected area.[2] South Central Bell notes that 137,000 calls per month are placed from Georgetown to Lexington, representing 452,000 total minutes of use and an average of 17 calls per Georgetown access line.[3] From Lexington to Georgetown, 85,000 calls are placed per month, representing 315,000 total minutes of use and an average of less than 1 call per Lexington access line. The

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1 T.E. at 58.

2 T.E. at 130.

3 T.E. at 94.

distribution of calls by customer class could not be determined from the available data. At the aggregate level of total originating calls, it appears that there is an obvious community of interest between the Lexington and Georgetown communities. In any event, the community of interest that exists occasions a combined total of 222,000 calls per month, representing 767,000 total minutes of use.

The Commission in its Order of May 15, 1991 gave notice to all parties that in initiating this investigation the EAS guidelines established 10 years ago may not be utilized as the sole criteria for determining community of interest. The Commission chooses to not utilize the voting threshold technique established in the EAS guidelines of a decade ago because of its understanding of expanding communities of interest and the need to address local calling issues at this time.

Upon review of the testimony in this proceeding, the Commission finds that the community of interest between the geographical areas between Georgetown, Kentucky and Lexington, Kentucky is overwhelming. As aptly put by a Georgetown-Scott County Chamber of Commerce witness, the community of interest of Scott County with the Lexington area ". . . cuts across virtually every plane of life in Scott County and generally affects virtually all of the population, not specific interest groups or business groups."[4]

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4 Transcript of Evidence ("T.E.") at 30.

Considering all relevant factors concerning community of interest, the Commission finds that a strong community of interest exists between and among the Georgetown and Lexington locales. The Commission now turns to a consideration of whether the community of interest is sufficiently strong to support the provision of two-way non-optional extended area service between and among the Georgetown and Lexington locales, and specifically which exchanges in Scott County and Fayette County are impacted.

GTE South proposes to address the calling needs with a local calling plan ("LCP") involving both flat rate and usage based options for expanded local calling.[5] GTE states that it is opposed to mandatory flat-rate EAS because of its "inherent unfairness to the broad base of customers."[6] Rejecting mandatory flat-rate EAS as an alternative, GTE South believes that it is a basic question of fairness. Whereas EAS forces all customers to pay to subsidize expanded seven-digit dialing, an LCP would cause only those customers who utilize the service to pay for it.[7] GTE South stated a flat-rated EAS evolved during a simpler time in the provision of telecommunications.[8] However, GTE South gave no evidence or data concerning the ability of local calling plan to address a community of interest as generalized and as strong as that present between Georgetown and Lexington.

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5 T.E. at 58-59.

6 T.E. at 58.

7 T.E. at 59.

8 T.E. at 60.

Like GTE South, South Central Bell opposes the implementation of flat-rate extended area service, preferring a proposal called Area Calling Service ("ACS") which has flat-rate and local measured service options in an extended calling area. South Central Bell asserts that mandatory EAS spreads costs to users who do not benefit from them and that is not fair and equitable.[9]

AT&T endorses the flat-rate non-optional EAS option if the Commission is going to order changes in the provision of telecommunications between Georgetown and Lexington.[10] The Georgetown-Scott County Chamber of Commerce believes that two-way non-optional EAS would best address the telecommunications needs between Georgetown and Lexington areas.[11]

The Commission believes that the most appropriate way to address the strong community of interest is to implement extended area calling that would be provided to and available for all customers in the affected exchanges on a flat-rate basis. This enables the community of interest to be addressed at the broadest and most generally applicable level. The benefits of extending the local area to and between Georgetown and Lexington in terms of an opportunity to call a greater number of people will be enjoyed by all of those in the affected exchanges.

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9 T.E. at 95.

10 T.E. at 134 and 135.

11 Response of Georgetown-Scott County Chamber of Commerce received June 14, 1991 at page 8.

We now turn to the issue of which exchanges in Scott County and Fayette County should be impacted because of the underlying community of interest. The Georgetown exchange and the Lexington exchanges clearly share in the mutual community of interest sufficient to participate in the extended area service. What is less clear is whether the Sadieville and Stamping Ground exchanges and the Midway exchange should also be included.

A number of the witnesses sponsored by the Georgetown-Scott County Chamber of Commerce described the community of interest in general terms for the Sadieville and Stamping Ground exchanges to Lexington asserting that the community of interest between Georgetown and Lexington extended to the northern part of Scott County. However, all of these witnesses were emphasizing the Georgetown exchange and no one specifically appeared on behalf of Stamping Ground and Sadieville. Furthermore, South Central Bell's cost analysis does not include the affect of extended area service between Sadieville, Stamping Ground, and Lexington.[12] Thus, Sadieville and Stamping Ground will not be included in the extended area service to the Lexington area at this time. The extended area service currently enjoyed amongst the three Scott County exchanges will be maintained.

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12 T.E. at 105.

Concerning the Midway exchange, GTE South's position is that any extension of the area calling for Georgetown should include the Lexington and Midway exchanges.[13]

South Central Bell's plan for measured service would have included the Midway exchange.[14] Although Midway has extended area service with Lexington, a portion of the Midway exchange is located in Scott County and has a clear community of interest with Georgetown.[15] The Commission finds that the Midway exchange should be included. Thus, extended area service is ordered between the Lexington exchanges, the Midway exchange, and the Georgetown exchange.

Next we turn to the issue of implementing extended area service. South Central Bell has provided schedules with various costs depending on whether the extended area service would be ordered to be implemented before June 1993 or after June 1993.[16] The Commission, having reviewed the cost information and understanding the time necessary to implement this decision finds, that EAS should be implemented after June 1993. This will coincide with the completion of a construction project already scheduled by South Central Bell and will thereby reduce the costs. South Central Bell contends that it could not implement EAS

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13 T.E. at 84 and 85.

14 T.E. at 108.

15 T.E. at 7.

16 See South Central Bell's response to the Commission's data request dated May 15, 1991. Item 2(b).

between Georgetown and Lexington earlier than 68 weeks from the time it was notified that it may begin construction. The difference in time between 68 weeks and June 1993 was not sufficient to justify ordering the earlier implementation date.

In response to item 3 of the Commission's data request of May 15, 1991, AT&T provided information depicting interLATA traffic between the communities of Georgetown and Lexington. Under protective agreement, this information was shared with GTE South and South Central Bell and is the primary input into the incremental investment, expense requirements, and lost access revenues developed by the two companies. The AT&T information included message toll traffic between Lexington and the Georgetown extended area service complex. In addition, the Commission provided a "gross-up" factor to adjust AT&T's information and account for traffic carried by other interexchange carriers.

Using this information, GTE South and South Central Bell developed the incremental revenue requirements necessary to provide local calling between Lexington and Georgetown. In their analyses, both companies included growth factors for minutes of use and access lines and assumed that implementation would occur January 1, 1993.

In its analysis, South Central Bell estimates an access revenue loss of $861,000. This amount includes lost revenue attributable to carrier common line charges. However, in

Administrative Case No. 323,[17] the Commission has taken action that will reduce carrier common line charges to zero. The revenue formerly associated with carrier common line charges will be recovered through the mechanism adopted in the Joint Motion:[18] i.e., an allocation of non-traffic sensitive revenue requirement to interexchange carriers based on relative terminating switched access minutes of use. Accordingly, the Commission finds that lost revenue attributable to carrier common line charges should not be included in South Central Bell's estimate, as it would permit double recovery. This reduces the access revenue loss to $483,000.

In addition to lost access revenue, South Central Bell estimates an incremental investment of $231,000 in interoffice trunks and switching equipment. In order to recover its depreciation expense, cost of money, and other operating expenses, South Central Bell estimates an associated annual revenue requirement of $66,000. South Central Bell proposes to amortize non-recurring expenses totaling $107,000 over ten years at an annual revenue requirement of $16,000. The total additional annual revenue requirement from access revenue loss, incremental investment, and expenses is $565,000. As a result of a change in

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17 Administrative Case No. 323, An Inquiry Into IntraLATA Toll Competition, an Appropriate Compensation Scheme for Completion of IntraLATA Calls by Interexchange Carriers, and WATS Jurisdictionality.

18 Joint Motion of a Coalition of Local Exchange Companies and Interexchange Carriers.

rate group for the Georgetown exchange, South Central Bell will receive $360,000 in additional revenue, reducing the annual requirement to $205,000.

GTE South estimates its additional annual revenue requirement to be $1,334,000. GTE South estimates additional investment in interoffice trunks, outside plant, and switching equipment of $1,576,000, generating a revenue requirement of $521,000 to recover associated expenses and earnings. GTE South estimates an access revenue loss of $813,000. However, like South Central Bell's, GTE South's estimate includes lost revenue associated with carrier common line charges. As above, the Commission finds that this is not appropriate. Accordingly, GTE South's adjusted access revenue loss is $434,000, including an adjustment for growth in access minutes.

GTE South's plant investment may have included non-recurring expenses. In response to an oral information request, GTE South identified non-recurring expenses of $61,000 for facility rearrangements, $55,000 for facility interfaces, and $9,900 for data base administration. Amortizing these amounts over ten years as South Central Bell did results in a revenue requirement reduction of $24,000. As adjusted, the total additional revenue requirement is $931,000.

In both cases, a major component of the additional revenue requirement necessary to implement extended area service between Lexington and Georgetown is attributable to lost access revenue. However, both companies acknowledge that if access charges are reduced as a result of pending decisions in Administrative Case

No. 323 and Case No. 90-256,[19] then lost access revenue would be reduced and recognized in adjusted revenue requirement calculations. Also, since implementation is not likely to occur before 1993, other factors such as investment and access line growth are subject to change and would affect the revenue requirement.

With regard to interoffice trunking and switching investment, the Commission is concerned that GTE South and South Central Bell may have duplicated efforts and overstated the facilities necessary to implement extended area service between Georgetown and Lexington. In order to assure the least investment, the Commission will require GTE South and South Central Bell to coordinate their engineering efforts prior to any construction. The Commission's staff will monitor engineering activities and advise the Commission as needed.

The revenue requirements developed by GTE South and South Central Bell assume that Sadieville and Stamping Ground will maintain their existing extended area service with Georgetown but will not be granted extended area service with Lexington. Georgetown will be granted extended area service with Lexington. No other scenarios were assumed. This is reasonable as far as it goes, but the Commission will require that Georgetown also be granted extended area service with Midway, which has extended area

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19 Case No. 90-256, A Review of the Rates and Charges and Incentive Regulation Plan of South Central Bell Telephone Company.

service with Lexington. Although Midway has extended area service with Lexington, a portion of the Midway exchange is located in Scott County and has a clear community of interest with Georgetown. To facilitate planning for extended area service with Midway, the Commission will require AT&T to provide traffic information concerning the Midway exchange in the same form as it filed regarding the Georgetown extended area service complex, within 45 days of the date of this Order.

South Central Bell proposed to apply the additional revenue requirement necessary to implement extended area service between Georgetown and Lexington on an average per access line. However, the Commission finds that the revenue requirement should not be applied equally per access line across all customer classes. Instead, the Commission finds that it should be applied to residence and business customers based on existing rate differentials between and within these customer classes. The same approach should be used in applying the revenue requirement to GTE South's Lexington and Midway customers, as GTE South proposed.

Based on the revenue requirements discussed above, the following rates would apply. Given that revenue requirements may change between now and the actual implementation date, the Commission considers the following rates to represent rates within a zone of reasonableness. Accordingly, the following rates shall apply to the Georgetown customers of South Central Bell, subject to final review at implementation: residence single line, $14.77 and business single line, $39.65. These rates represent a total increase over existing rates of $3.60 for residence single line customers and $11.55 for business single line customers. Also, these rates include the effect of regrouping. Other applicable rates shall be derived based on their tariffed relationship to these rates. The following rates shall apply to the Lexington and Midway customers of GTE South, subject to final review at implementation: residence single line, $17.53 and business single line, $48.21. These rates represent a total increase over existing rates of $0.39 for residence single line customers and $1.07 for business single line customers. As above, other applicable rates shall be derived based on their tariffed relationship to these rates. In the case of Lexington and Midway, there is no regrouping impact.

In order to put into place the decisions the Commission has made including the reasonableness of extended area service based on the community of interest between Georgetown, Lexington, and Midway, the Commission hereby orders South Central Bell and GTE South to undertake as expeditiously as possible all steps necessary to petition the Federal District Court, District of Columbia, to change the LATA boundary to allow the provision of local service between Georgetown, Lexington, and Midway.[20] All parties concur that requesting a move of the LATA boundary is more appropriate than waiving the LATA boundary.

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20 It should also be noted that Scott County was part of Lexington SMSA when the LATA's were established and it was the only part assigned to a different LATA than the rest of the Lexington SMSA further supporting the need for a LATA boundary change. See South Central Bell's response to the Commission data request dated May 15, 1991, Item 2(h).

IT IS THEREFORE ORDERED that:

1. South Central Bell and GTE South shall take all steps necessary to petition the Federal District Court, District of Columbia, to change the LATA boundary to allow the provision of local service between Georgetown, Lexington, and Midway.

2. If the permission is granted for the change of the LATA boundary then GTE South and South Central Bell shall provide flat-rate extended area service between Georgetown, Lexington, and Midway no later than June 30, 1993 and a rates in the ranges described herein.

3. Within 45 days of the date of this Order, AT&T shall provide traffic information concerning the Midway exchange in the same form as it filed regarding the Georgetown extended area service complex.

4. Within 30 days of the date of a decision by the Federal District Court, District of Columbia, South Central Bell and GTE South shall file a report with this Commission containing an update of necessary construction including a projected completion date, an evaluation of proposed rates, and a verification that engineering efforts are being coordinated.

Done at Frankfort, Kentucky, this 25th day of November, 1991.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director